




**Insurance
Corporation of
British Columbia**

Eighth Annual Report

for the twelve months ended
December 31, 1980



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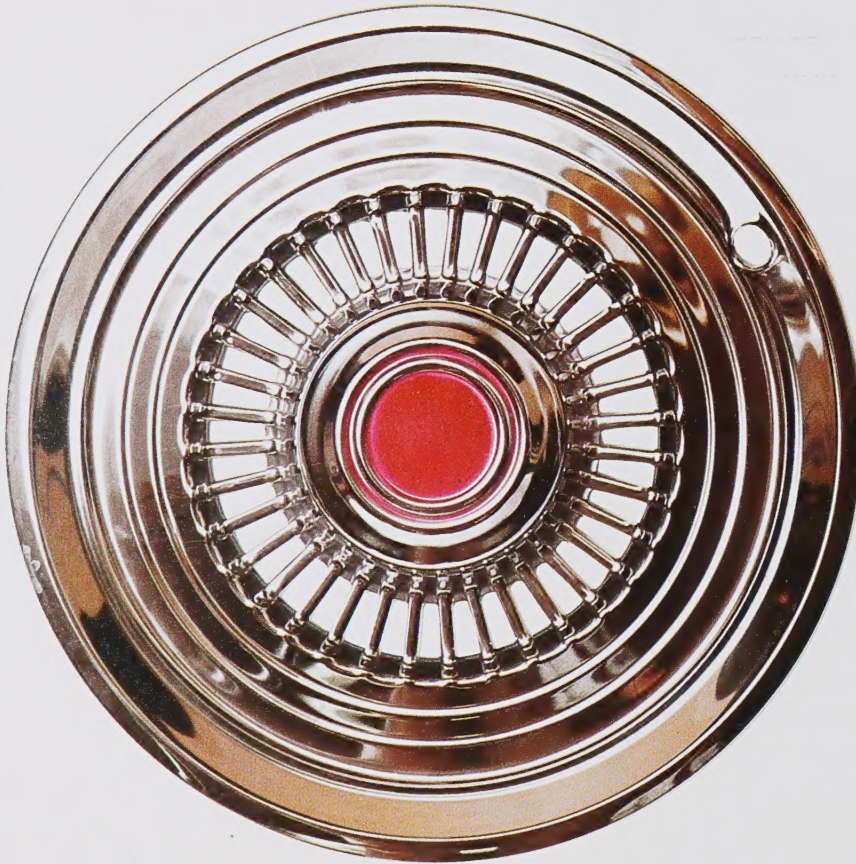
Insurance Corporation of British Columbia

Eighth Annual Report

*For the twelve months ended
December 31, 1980*

<i>Contents</i>	<i>page</i>
The Report of the Board of Directors	2
The Price of Car Insurance	4
Investments	10
Autoplan Fund	11
Unpaid Claims	13
Five Year Comparison	13
General Insurance	14
Financial Statements	
Insurance (Motor Vehicle) Act Fund	16
General Operations	17
Balance Sheet	18
Changes in Financial Position	20
Notes to Financial Statements	21
Board of Directors	24
President's Committee	24
Claim Service Locations	24

The Report of The Board of Directors



The 1980 financial year saw a major change in the Corporation's claim activity. Significant increases in both the number and severity of claims resulted in an overall increase of 33% in claims incurred and were the cause of the Insurance (Motor Vehicle) Act Fund recording a loss of \$66.0 million for the year ended December 31, 1980.

A loss of this magnitude necessitated utilization of the entire Rate Stabilization Reserve relative to automobile insurance, of \$61.6 million, and the balance of the loss has been charged against surplus.

The escalating claim costs forced the Corporation to take drastic action. On November 14, 1980 a new rate structure was introduced which significantly increased premium rates. The basic compulsory rates increased an average of 31% while the optional coverage increased an average of 22% for comprehensive coverage and 59% for collision coverage. The increases were necessary to meet the claim costs forecast for 1981. It is hoped that the higher cost of insurance will make motorists more acutely aware of the need to drive safely and play their part in reversing the trend of the ever-increasing number of accidents.

The Corporation recorded a total of 477,000 claims during the year, 59,000 or 14% more than in the previous twelve months. The number of property-related claims rose 18% to 428,000, and injury-related claims rose 7% to 49,000.

In addition, the cost of each claim rose significantly. Property-related claim costs increased by 24% and injury-related claim costs increased by 9%.

This combination drove the total claim costs incurred in 1980 to \$449.7 million, \$111.6 million greater than in the previous year.

Many factors can be identified as significant contributors to this large increase in claim costs. In addition to general inflationary pressures, such factors as vehicle modifications relating to energy

conservation, environmental controls, styling and the reduced value of the Canadian dollar all contributed to the substantially increased cost of repairing damaged vehicles.

1980 saw the first steps taken toward the introduction of a program to meet the Government legislation of eliminating major discriminatory rating factors in auto insurance. The Fundamental Auto Insurance Rating program commenced on January 1, 1980 with the programmed removal over a two year period of age, sex and marital status as rating factors and the elimination of territorial rate differences over five years. Commencing in 1981 the Corporation introduced a driver accident premium requiring a driver, responsible for a blameworthy accident, to pay an additional premium whether or not that driver is the owner of the vehicle. The purpose is to shift the burden of higher premiums to those who are responsible for accidents and the resulting claims.

During 1980 the Corporation continued to provide new coverages which better meet the needs of the motoring public. Additional coverages introduced during the year include Inverse Liability insurance which is included in the basic compulsory Third Party Liability coverage at no extra cost; Underinsured Motorist Protection coverage which provides that the motorist's own Third Party Liability limits can be applied in the event that he is the victim of an accident in which the driver at fault has less coverage; and Supplementary 'No-fault' Benefits, available to motorists who prefer increased coverage.

Claims operations expenses have increased primarily as a result of the hiring of additional staff to handle the increased workload. Major plans are underway to improve the quality of claims service by further hiring and training of additional staff.

The General Insurance Division continues to provide a balanced service of innovative products and

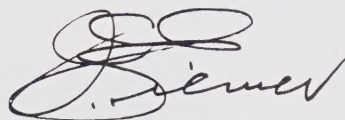
consistently priced coverage packages in a keenly competitive market.

This Division remains dedicated to the principle of providing stable underwriting and rating practices and resisting erratic fluctuations.

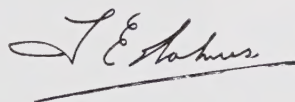
The General Insurance Division can be justifiably pleased with income of \$1.8 million on earned premiums of \$21.8 million in 1980.

Construction of a new headquarters building for the Corporation in the Lonsdale Quay area of North Vancouver is under way and on schedule. The Corporation expects to complete the move in 1982.

The Board of Directors would like to thank the staff of the Corporation for the dedicated and enthusiastic effort that was so evident throughout the past year.



John C. Gilmer
Chairman of the Board



Thomas E. Holmes
President and Chief Executive Officer


*On behalf of the Board of Directors,
Insurance Corporation of
British Columbia*

February 17, 1981

The price of car insurance: Dilemma of the '80s!

The price of car insurance is subject to wide fluctuations over which the individual appears to have little or no control. The price of car insurance includes many components all of which are either subject to inflationary pressure, or to the pressures of social change. There is, however, one notable exception in the case of car insurance where the individual could bring about significant improvement. It is in the area of driving performance which, were it to improve, would reduce the number of accidents. Apparently a plateau has been reached in this regard and the statistics indicate that driving skills and driving performance are, if anything, deteriorating. Can nothing be





done to reduce rates and bring automobile insurance into line, or at least hold premium increases to more acceptable levels? Not likely in the short term, because the motorist and the Corporation are fighting spiralling costs and inflation over which they have no control.

In those areas where it can exercise controls, such as operating costs and supervision of investment income, the Corporation has an excellent record. In the past five years, for example, the Corporation has returned, to insured motorists, an average of 94.6 cents of each premium dollar in claims related payments.



Unitized body cars have lighter windshield frames with reduced impact resistance, resulting in increased windshield replacement

One year ago accident claims were running at \$900,000 a day. In 1980 the Corporation paid out \$1.2 million every day and estimates that the cost will be \$1.4 million per day in 1981. Motor accident claims in 1981 will cost B.C. motorists in excess of half a billion dollars.

In the years ahead the Corporation hopes to reduce the incidence of accidents by continuing public information and education throughout the school system, the improvement and expansion of driver training programs, continuing emphasis at all levels of the community on the problem of drinking/driving and close cooperation with government ministries such as those of the Attorney General and of Transportation and Highways.

One other factor has tended to worsen the situation with respect to 1981 premiums. For the past four years the Insurance Corporation has been able to hold the line on premiums and while 1981 increases, on average, are still well below those in the consumer price index, the massive inflationary, upward pressure from all sources, could not be contained any longer.

WHAT'S BEHIND THE INCREASES?

While no reasonable explanation is forthcoming for the continuing increase in the number of accidents, statistics on inflation help to explain the problem of the increased cost of accidents.



Suspension components which were formerly attached to a conventional rigid frame are now attached to body panels of lighter alloys, such as the inner fender pan above.

Double digit inflation for auto repairs and service; lightweight, energy conserving cars which, in many cases are more costly to repair; changes in styling; development of more sophisticated, more costly environmental control devices and escalating court awards are all components of the complex problem.

INFLATION

Replacement costs on a two year old North American car are averaging 18% more today than just one year ago. The costs of imported cars, generally, are up 26% and the costs of some individual popular cars are up 32% in just one year.

AVERAGE AUTOPLAN PREMIUMS/ INCREASES IN CONSUMER PRICE INDEX

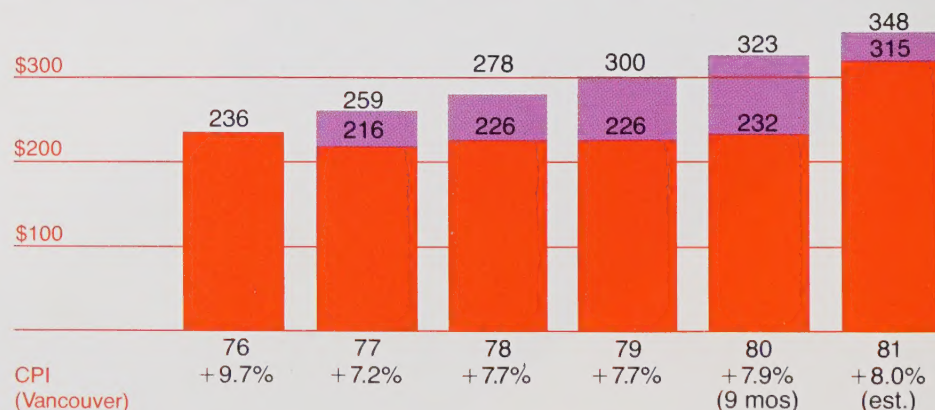


Chart shows (top) what the Autoplan premiums would have been if they had matched the Consumer Price Index. Red areas show the actual average premiums.



A broken inlet port on a plastic (or fibre composite) radiator such as above, necessitates total replacement of the unit at many times the cost of welding, which was the normal and more economical means of repairing metal radiators.

The cost of parts is rising at an annual rate of 21% and there is no end in sight.

In B.C., accidents now result in 62 vehicles being written off every day. It costs 32% more to replace a two year old Toyota Corolla than it did one year ago, and the replacement cost of a Volkswagen Rabbit is up 28%. In many cases replacement costs of North American cars are just as high.

Increases in replacement cost of popular 1978 North American models in 1980 over 1979

Chev Malibu	22%
Ford Granada	15%
Chev Chevette	21%
Plymouth Arrow	25%

OTHER COST FACTORS IN THE '80s— SAFETY, STYLING, ENVIRONMENTAL

The cost of parts alone constitutes a vital element in the cost escalation of claims. Replacing a bumper on a 1972 Corvette and on a 1978 model provides a startling comparison. The 1972 version cost \$215. The 1978 bumper is \$684. That's a 218% increase in six years, or an average of 36% per year. Similarly, in 1979, Fords had the traditional round headlights which cost \$5.45 each. In 1980, most Fords have rectangular headlights at \$13.60 each, an increase of 149% in one year.

Catalytic converters are part of the exhaust system for pollution abatement. To replace one in a 1974 Pinto costs \$72. The 1980 Pinto replacement costs \$261, an increase of 262%.

On top of abnormal inflation, the costs of these three examples were basically affected by three quite different factors which are having an enormous influence on the cost of car insurance—the bumper by safety changes, the lights by styling changes and the catalytic converter by increasingly higher standards for environmental protection.

SMALLER CARS

With the advent of ever higher gasoline prices, drivers are swinging over to smaller, lighter, more fuel efficient cars. A very large proportion of these newer, lighter cars are front wheel drive which provide more interior space and a reduction in weight because of no rear drive train.

A front wheel drive car does not handle like a rear wheel drive. Many drivers are, therefore, faced with the need to change their driving skills. Yet, they may not even be conscious that a difference exists.

The problem as far as accidents are concerned is that driver skills have not kept pace with the technological advances in these new smaller vehicles.

In the United States, the National Highway Traffic Safety Administration points out that "in crashes severe enough to

cause a fatality, occupants of sub-compact cars are eight times more likely to be killed in crashes with full-sized cars than are the occupants of larger vehicles." While small cars comprised only 38% of the cars on the road in the United States in 1979, when the study was undertaken, small car occupants accounted for a disproportionate 55% of the deaths in two car collisions in that year.

IS THERE AN ANSWER TO THE PROBLEM?

There is no one answer to increasing costs of car insurance which will satisfy the motorist who has to pay the higher premiums and there is no relief in sight as long as high inflation continues and traffic accidents remain at present levels.

However, the Corporation is introducing initiatives which, over time, could help to reduce the incidence of accidents thereby helping to stabilize the cost of car insurance.

It is in the area of public information and education that the Insurance Corporation sees the greatest hope for the future.

In May, 1977, the Corporation and the Ministry of the Attorney General launched the CounterAttack program to combat the enormous problem of drinking/driving. They recognized that no one technique would be effective with such a widespread problem so a comprehensive program was introduced using public information and education; community

Costing about \$38,000 per unit, the Car Bench returns the damaged car bodies to factory specifications by the use of individual jigs for each make and style of car. Cost of each set of jigs varies between \$3,000 and \$9,000.





Upon completion of the paint job, replacement parts and cosmetic components are reassembled on the car.

programs to encourage business, labour, social and private sector groups to adopt countermeasures; school programs to teach alcohol and driving interaction; law enforcement to increase public perception of the risks of apprehension; new enforcement techniques; and law review to bring about changes and reforms in legal systems relating to impaired driving deterrence.

How well is the CounterAttack program working?

In a report of August, 1980, R. A. Rockerbie, Ph.D., of the Policy Planning Division

of the Ministry of the Attorney General writes, "On a province-wide average the CounterAttack program effected a 19.5% reduction in alcohol-related fatal crashes when implemented in 1977. This effect continued throughout 1978 and 1979 resulting in a reduction of 120 deaths, 2,540 fewer injuries and \$53.3 million saved in societal costs over the three years." Dr. Rockerbie concludes that, "a sustained impact has occurred."

Accordingly, to strengthen the program still further, CounterAttack has now been introduced into high schools throughout

the Province. The philosophy is one of prevention based on personal involvement in the program's objectives. The school program is designed to do more than merely present information. It encourages the formation of healthy attitudes, decision and behaviour. In addition to being taught as a special unit of study, CounterAttack information has been integrated into existing high school curricula — Biology, Chemistry, English, Social Studies, Guidance, French, Community Recreation, Learning Assistance and Law courses for Grades 8 to 12. Outside the classroom, students are en-



New techniques and increased skills are required of the technician due to radical changes in materials and design.



Following an accident, wheel misalignment is common in unitized car bodies because of the impact being distributed throughout the entire car.

The need to reclaim parts of older vehicles is a large and constant facet of body shop repairs.



couraged to become involved in seminars and community education projects on drinking/driving.

The film "A Matter of Time" has just been produced by the Corporation as a further teaching aid. With the accompanying pamphlets and manual it is available to all schools, service clubs and community groups. Local teams, comprising teachers, policemen, Corporation staff, disabled persons and students will assist at the school and community levels with the distribution of "A Matter of Time" and will organize the training seminars. In this way, it is hoped the film will become a focus for total community involvement in the vexing subject of drinking/driving.

SEAT BELT USE

The history of the use of seat belts in British Columbia is discouraging. Seat belt legislation was introduced in B.C. in the Fall of 1977. Annual surveys since that time have indicated a decline in the usage rate from 72% for drivers and 66% for front seat passengers in November 1977, one month after the legislation was introduced, to 54% for drivers and 49% for front seat passengers in October 1980. Perhaps more than any other single indicator, the data on seat belt usage reveals how many drivers at this time are neither prepared nor willing to take a simple precaution such as "buckling up", in order to reduce the severity of injuries due to traffic accidents.

CONCLUSION

As more information is collected on driver habits and attitudes on subjects such as drinking/driving and seat belts, it becomes apparent that many drivers have little interest in changing or modifying their behaviour when they drive. In fact, quite

the contrary. Getting behind the wheel of a car seems to precipitate the release of feelings of frustration and aggression.

Gerald Wilde, a professor of Psychology at Queen's University and a recognized authority on the subject of traffic safety, feels that for years not enough attention has been paid to driver attitudes. Concentration in driver education has been on mechanical skills, rather than on changing attitudes and reducing aggression.

An Ontario group believes that real improvement in accident rates can come only from a change in the state of mind of the motoring public. They believe that a driver's performance is based on a combination of skill and attitude. The Insurance Corporation is also studying this new approach.

The theory is that by improving drivers' skills and changing their attitudes simultaneously, drivers will be able to hold their emotions in check long enough to avoid accidents.

This, then, may be one of the last, best hopes for controlling the mayhem on our highways and the ever increasing cost of car insurance.

There is no indication that the Corporation or any other agency in the public or private sectors will be able to control inflation in the cost of vehicles, or increases in costs of parts due to style changes and environmental considerations. It is too early to make any final assessment on the cost of claims because of the increasing number of small cars on our highways.

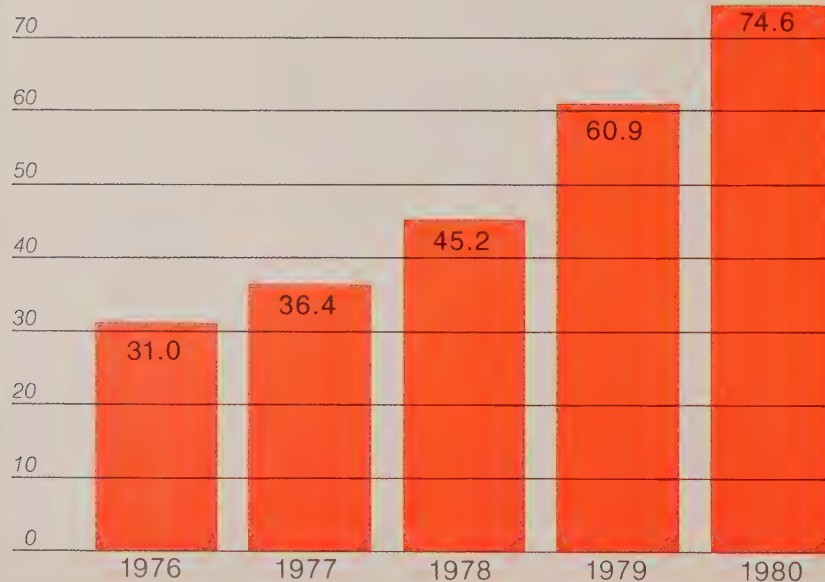
It is apparent, however, that these factors now, and in the foreseeable future, appear to be out of control and will continue to have major impact on the cost of claims.

Investment Portfolio as at December 31, 1980

	\$ Million	%
Federal	207.5	35.5
Provincial	114.9	19.6
Banks	106.7	18.2
Corporations	95.8	16.4
Canadian Dollar Eurobonds	19.1	3.3
Call Loans	16.0	2.7
Municipal	12.0	2.0
Finance Companies	11.5	2.0
Trust Companies	1.0	.2
Other	.3	.1
	<u>\$584.8</u>	<u>100.0</u>

Total Corporate Investment Income 1976-1980

\$ in Millions
80



Investments

At December 31, 1980 the Corporation's investment fund, including both the Insurance (Motor Vehicle) Act Fund and the General Insurance Division investments, totalled \$585 million. The Corporation's policy is to invest in Canadian debt instruments in the short, medium and long term markets. Investments include provincial, federal and municipal government and business and financial institution securities, with preference given to organizations based in British Columbia.

Provisions for unpaid claims and unearned premiums are the two major sources of investment funds.

Provisions for unpaid claims total \$464 million at December 31, 1980. These provisions cover claims reported but not yet settled for the current as well as all prior years. In addition they include estimates for claims incurred but not yet reported as at year end.

Unearned premiums, which represent premiums received for a period which extends beyond December 31, amount to \$146 million. This represents an increase of \$38 million over 1979. The increase is due to a continuation in the shifting of renewal dates as more policyholders have policy renewals at dates other than March 1.

Investment income continues to be a significant proportion of the total income of the Corporation. The Insurance (Motor Vehicle) Act Fund investment income amounted to 14% of income, while the General Insurance Division investment income was 12% of income.

Autoplan Fund

The total revenue of the Autoplan Fund amounted to \$489.7 million for the year ended December 31, 1980. Claims incurred and expenses amounted to \$555.8 million, resulting in a loss of \$66.0 million.

The unappropriated surplus at the beginning of the year amounted to \$10.8 million while the Rate Stabilization Reserve stood at \$61.6 million. After full utilization of this Reserve, and absorption of the balance of the loss, the unappropriated surplus at the year end was \$6.4 million.

Net vehicle premiums written during the year amounted to \$440.2 million while the premiums earned totalled \$404.3 million. The average premium per policy was \$232 compared to \$226 for the previous financial year. The Safe Driving Vehicle Discount earned by vehicle owners in the Province was \$150.1 million, \$48.1 million higher than in 1979.

Driver Penalty Point premiums continued to increase and contributed \$14.8 million to premiums earned. The \$1.7 million increase over last year was partly due to a higher number of billings and partly to improved collections.

Investment income showed a significant increase and amounted to \$70.7 million for the year. High yields available on short term investments contributed to an overall average yield of 11.8%. Included in investment income is \$2.4 million in interest earned on premiums financed by the Corporation.

The total claims incurred amounted to \$449.7 million which is 33% greater than 1979. The total number of claims increased 14% while the average cost for all claims rose by 15% to \$815 for the year.

The dramatic increase in claim costs occurred primarily in the Property Damage category with the average claim rising 22% to \$646. The Bodily Injury category rose 3% to \$4,524 for the year.

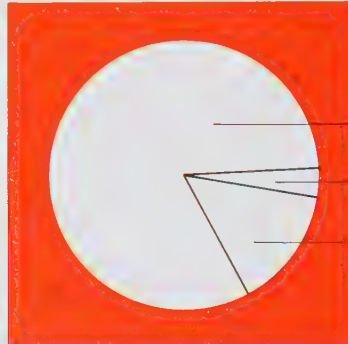
Claim operations expenses amounted to \$35.8 million or 19% more than in 1979. The major cost increase was in compensation as the Corporation hired additional staff to cope with the increase in accidents reported.

Administrative expenses at \$36.2 million were higher than in 1979 but only by 0.7%. This efficiency is the result of the Corporation's continuing commitment to adapt and streamline business procedures to provide efficient and economical service.

Commissions earned by agents amounted to \$34.1 million. The increase in cost over 1979 was largely due to the increased volume of insurance business because of the withdrawal from the auto market of most private insurance companies.

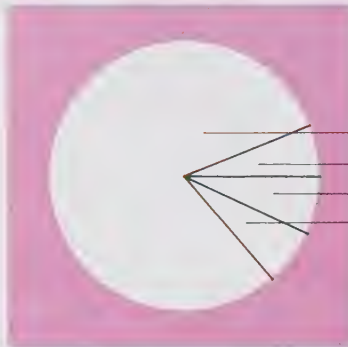


12 Months ended December 31, 1980



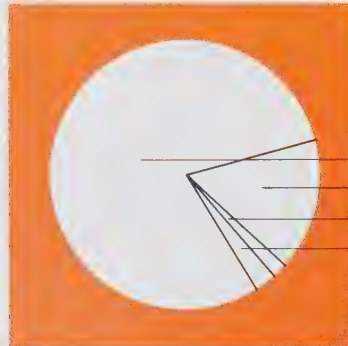
AUTOPLAN INCOME

	\$ Millions	%
Vehicle premiums earned	404.3	83
Driver premiums earned	14.8	3
Investment income	<u>70.7</u>	<u>14</u>
	489.8	100



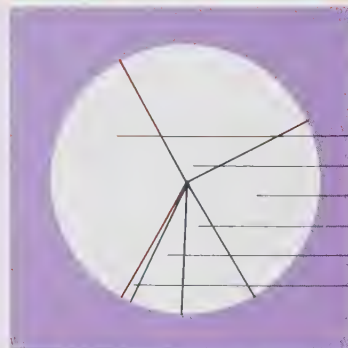
AUTOPLAN INCOME USE

	\$ Millions	%
Claims incurred	449.7	81
Claims operations costs	35.8	6
Administrative costs	36.2	7
Commissions	<u>34.1</u>	<u>6</u>
	555.8	100
Loss on operations	<u>(66.0)</u>	<u>(12)</u>
Autoplan income	489.8	88



VEHICLE PREMIUMS WRITTEN BY CATEGORY

	\$ Millions	%
Passenger vehicles	351.7	80
Commercial and others	75.7	17
Trailers	6.3	1
Motorcycles	<u>6.5</u>	<u>2</u>
	440.2	100



AUTOPLAN CLAIMS INCURRED

	\$ Millions	%
Bodily injury	158.8	35
Property damage	116.2	26
Collision	110.3	24
Accident benefits	27.3	6
Comprehensive	34.1	8
Other	<u>3.0</u>	<u>1</u>
	449.7	100

Unpaid Claims

The unpaid claims provision at December 31, 1980, includes estimates for claims incurred, but not settled, for each year since the Corporation commenced operation, as follows:

Year	Insurance (Motor Vehicle) Act Fund	General Insurance	Total
1974	\$ 6,089,000	\$ 92,000	\$ 6,181,000
1975	8,470,000	533,000	9,003,000
1976	15,275,000	669,000	15,944,000
1977	28,717,000	776,000	29,493,000
1978	58,428,000	1,483,000	59,911,000
1979	100,350,000	2,221,000	102,571,000
1980	232,906,000	7,662,000	240,568,000
Total unpaid claims at December 31, 1980	<u>\$450,235,000</u>	<u>\$13,436,000</u>	<u>\$463,671,000</u>



Five Year Comparison

	Twelve Months Ending				
	Dec. 1980	Dec. 1979	Feb. 1979	Feb. 1978	Feb. 1977
AUTO INSURANCE					
Vehicle policies	1,805,000	1,671,000	1,622,000	1,560,000	1,504,000
Premium income (\$000)	419,000	378,000	367,000	337,000	355,000
Average premium (\$)	232	226	226	216	236
Number of claims for policy year	477,000	418,000	415,000	395,000	363,000
Cost of claims incurred (\$000)	450,000	338,000	313,000	297,000	216,000
Unpaid claims (\$000)	450,000	366,000	323,000	261,000	182,000
Expense ratio %	17	18	17	17	17
Investment income (\$000)	70,700	58,200	43,500	35,200	30,200
Income (loss) (\$000)	(66,000)	3,800	6,100	(8,600)	71,800
GENERAL INSURANCE					
Policies	106,000	95,000	99,000	94,000	89,000
Net premiums earned (\$000)	21,800	21,000	21,000	19,000	16,000
Number of claims recorded	10,000	9,000	8,000	7,000	10,000
Cost of claims incurred (\$000)	13,000	13,000	10,800	9,700	7,300
Unpaid claims (\$000)	13,400	10,800	11,000	9,200	6,600
Investment income (\$000)	3,100	2,500	1,800	1,200	800
Income (\$000)	1,800	1,400	3,300	2,700	1,500
CORPORATE					
Average number of employees	2,387	2,363	2,345	2,300	2,250
Investments at year end (\$000)	585,000	525,000	617,000	521,000	425,000
Total assets (\$000)	667,000	587,000*	759,000	674,000	582,000

*The change to a fiscal calendar year resulted in a dramatic change in the recording of advance premiums and consequently, a reduction in assets.

General Insurance

Operations

The Corporation's General Insurance operation reported a successful year of modest growth, achieved through innovative product development.

Introduction of a special discount program for senior citizens early in 1980 met with enthusiastic response and contributed to the growth in the Corporation's portfolio of residential insurances.

In addition, a number of coverage improvements were introduced to personal lines products, including sewer back-up, replacement cost coverage on mobile homeplan units and contents, and replacement cost coverage on tenants' contents. The Corporation strives to produce the most comprehensive coverage possible with a view to serving its customers better, while recognizing its responsibility to maintain adequate premium levels.

During the year, the General Insurance Division opened a branch service office in Victoria to serve the needs of our Vancouver Island customers. At the present time this office handles only commercial line business, however, it will be expanded to include personal lines in the near future.

The computerized policy management system was expanded during the year. Enhancements included rate and form changes, renewal processing and reinsurance processing. Over 80,000 personal lines policies are now available on-line, permitting instant retrieval of coverage and claims information. It is planned to include commercial lines early in 1981.

The insurance market in British Columbia during 1980 was highly competitive for all classes of business and many companies have reported serious underwriting losses. The accelerated pattern of competition over the past two years, as companies sought to expand their volume of business and maximize the value of extremely high interest rates available on investments, will undoubtedly lead to significant rate increases in the future as deteriorating underwriting results dilute or totally offset investment income.

In this difficult market, the Corporation's General Insurance Division has maintained its policy of providing a stable market through consistently priced insurance products and avoidance of extreme variations in rates.



Financial

Net earned premiums in the General Insurance operation amounted to \$21.8 million in 1980, an increase of 3% over the previous year. Claims and claims operation expense totalled \$13.9 million, an increase of 4% over the previous year.

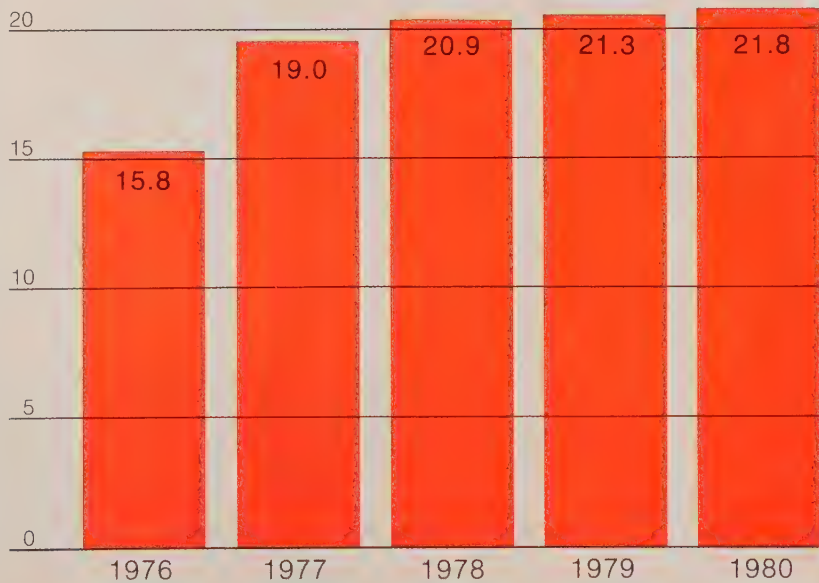
Claims incurred represented 61% of net earned premiums, consistent with the prior year. However, the average cost per claim decreased by 8%. The Corporation has introduced a fraud control program which, combined with increased use of staff adjusters, has had a significant impact in holding down claim costs.

Administrative expenses have increased by 5% over the previous year which is significantly better than current inflationary patterns. 1981 will see the full implementation of the policy management computer system and an increase in operating efficiency to help control rising administrative costs.

Net surplus of \$1.8 million is attributable to extremely favourable investment income of \$3.1 million which offsets the underwriting loss of \$1.3 million. The Rate Stabilization Reserve has been increased by \$1.2 million for a total of \$5.1 million. In addition, \$1.1 million was transferred to the Catastrophe Reserve which now totals \$4.3 million. Unappropriated retained earnings at year end are \$1.8 million.

NET PREMIUMS EARNED 1976-1980

\$ in Millions
25



Insurance (Motor Vehicle) Act Fund

STATEMENT OF OPERATIONS *Year Ended December 31, 1980*

	1980	1979
Revenue		
Vehicle premiums written	\$440,164,000	\$395,345,000
Driver premiums written	15,732,000	13,777,000
	<u>\$455,896,000</u>	<u>\$409,122,000</u>
Vehicle premiums earned	\$404,260,000	\$365,289,000
Driver premiums earned	14,762,000	13,044,000
	<u>419,022,000</u>	<u>378,333,000</u>
Investment income	70,721,000	58,189,000
Total revenue	<u>489,743,000</u>	<u>436,522,000</u>
Claims		
Claims incurred	449,715,000	338,102,000
Claims operations expense	35,820,000	30,039,000
	<u>485,535,000</u>	<u>368,141,000</u>
Expenses		
Administrative	36,153,000	35,890,000
Commissions	34,093,000	26,684,000
	<u>70,246,000</u>	<u>62,574,000</u>
Total claims and expenses	<u>555,781,000</u>	<u>430,715,000</u>
Income (loss) for the year	(66,038,000)	5,807,000
Unappropriated surplus—beginning of the year as restated (Note 3)	10,830,000	5,023,000
Appropriation from Rate Stabilization Reserve (Note 4)	61,600,000	—
Unappropriated surplus—end of the year	<u>\$ 6,392,000</u>	<u>\$ 10,830,000</u>



Insurance Corporation of British Columbia

STATEMENT OF GENERAL OPERATIONS *Year Ended December 31, 1980*

	1980	1979
Revenue		
Net premiums written	\$22,967,000	\$21,038,000
Net premiums earned	\$21,818,000	\$21,258,000
Net claims incurred and adjustment costs	13,922,000	13,408,000
Expenses		
Administrative	4,940,000	4,703,000
Commissions	4,268,000	4,186,000
	9,208,000	8,889,000
Total claims and expenses	23,130,000	22,297,000
Underwriting income (loss)	(1,312,000)	(1,039,000)
Investment income	3,101,000	2,461,000
Income from General Insurance operations	1,789,000	1,422,000
Income from other operations	76,000	116,000
Income for the year	1,865,000	1,538,000
Unappropriated retained earnings— beginning of year	2,228,000	1,790,000
Appropriation for: (Note 4)		
Catastrophe Reserve	(1,100,000)	—
Rate Stabilization Reserve	(1,200,000)	(1,100,000)
Unappropriated retained earnings— end of year	\$ 1,793,000	\$ 2,228,000



Balance Sheet

As at December 31, 1980

ASSETS

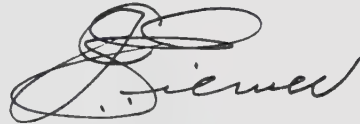
1980

1979

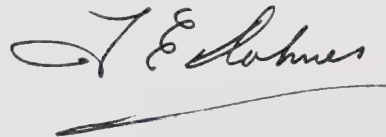
Cash in hands of agents and banks	\$ 4,080,000	\$ 659,000
Investments (Note 5)	584,827,000	525,325,000
Finance Plan receivables	6,744,000	4,683,000
Other receivables	17,691,000	14,942,000
Deferred premium acquisition costs	11,615,000	8,445,000
Property and equipment (Note 6)	41,621,000	37,309,000

Approved by the Board:

Director:



Director:



\$666,578,000

\$591,363,000



Insurance Corporation of British Columbia

LIABILITIES

	1980	1979
Accounts payable and accrued charges	\$ 27,038,000	\$ 23,887,000
Motor Vehicle Branch	4,343,000	706,000
Premiums in advance	7,700,000	—
Unearned premiums (Note 8)	146,241,000	107,889,000
Unpaid claims (Note 9)	463,671,000	377,123,000
	<u>648,993,000</u>	<u>509,605,000</u>
Due to the Insurance (Motor Vehicle) Act Fund representing its:		
Rate Stabilization Reserve (Note 4)	—	61,600,000
Unappropriated surplus (Note 3)	6,392,000	10,830,000
	<u>6,392,000</u>	<u>72,430,000</u>
	<u>655,385,000</u>	<u>582,035,000</u>

RETAINED EARNINGS

Catastrophe Reserve (Note 4)	4,300,000	3,200,000
Rate Stabilization Reserve (Note 4)	5,100,000	3,900,000
Unappropriated retained earnings	1,793,000	2,228,000
	<u>11,193,000</u>	<u>9,328,000</u>

	<u>\$666,578,000</u>	<u>\$591,363,000</u>
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Statement of Changes in Financial Position

Year Ended December 31, 1980

	1980	1979
Resources provided:		
From Insurance (Motor Vehicle)		
Act Fund Operations (Note 10)	\$ —	\$ 8,940,000
From General Operations (Note 10)	1,902,000	1,617,000
Increase in unearned premiums	38,352,000	30,453,000
Increase in unpaid claims	86,548,000	52,049,000
Increase in fees payable to		
Motor Vehicle Branch	3,637,000	—
Sale of property and equipment	1,632,000	653,000
Premiums in advance	7,700,000	—
	<u>139,771,000</u>	<u>93,712,000</u>
Resources applied:		
To Insurance (Motor Vehicle)		
Act Fund Operations (Note 10)	62,582,000	—
Increase in Finance Plan Receivables	2,061,000	3,407,000
Purchase of property and equipment	9,437,000	5,073,000
Decrease in fees payable to		
Motor Vehicle Branch	—	264,000
Net decrease in other assets and		
liabilities	2,768,000	7,610,000
	<u>76,848,000</u>	<u>16,354,000</u>
Increase in resources for year	62,923,000	77,358,000
Cash and investments—beginning of year	525,984,000	448,626,000
Cash and investments—end of year	<u>\$588,907,000</u>	<u>\$525,984,000</u>

Notes to Financial Statements

December 31, 1980

1. STATUS OF THE CORPORATION

The Insurance Corporation of British Columbia (the Corporation) is a Crown corporation incorporated under the Insurance Corporation Act, R.S.B.C. Chapter 21 (previously the Insurance Corporation of British Columbia Act S.B.C. 1973 (1st session), Chapter 44, assented to April 18, 1973). The Corporation has the power and capacity to act as an insurer and reinsurer in all classes of insurance and to operate and administer the Insurance (Motor Vehicle) Act Fund (previously the Automobile Insurance Act Fund).

The Insurance (Motor Vehicle) Act Fund is by legislation a separate entity for financial reporting purposes. A statement showing the results of the operation of the Fund is included with the financial statements of the Corporation and the balance of the Fund, which represents its accumulated net operating position, is reflected in the balance sheet of the Corporation. The Fund consists of the revenues and expenses attributable to the Insurance (Motor Vehicle) Act Fund operations. All assets and liabilities are held by the Corporation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Reporting

As prescribed by Section 21(4) of the Insurance Corporation Act, the financial statements of the Corporation are presented in accordance with generally accepted accounting principles.

Investments

Investments are carried as follows:

Short-term deposit receipts, call loans, and notes	— at cost or amortized cost plus accrued interest
Bonds	— at amortized cost plus accrued interest.

Deferred Premium Acquisition Costs

General Insurance premium taxes, and commissions, including those relating to the subsequent year's Insurance (Motor Vehicle) Act Fund premiums, are charged to expense over the terms of the insurance contracts to which such costs relate.

Depreciation and Amortization

Depreciation is provided on a straightline basis commencing in the month following that in which assets are placed in service at rates

which will amortize the original cost over the useful life of each asset. Leasehold improvements are amortized over the term of each lease plus the first renewal period where appropriate.

Leases

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incident to the ownership of property is classified as capital lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. The capitalized lease obligations reflect the present value of future rental payments discounted at the interest rate implicit in the lease, and the corresponding amount is capitalized as the cost of the assets and depreciated over the assets' estimated economic life. (Note 7).

Unearned Premiums

The liability for unearned premiums is the portion of premiums that relates to the unexpired term of each vehicle policy, General Insurance contract, or driver's premium.

Unpaid Claims

Unpaid claims includes a provision for reported and unpaid claims, based on the claims settlement experience of the Corporation, current trends and a detailed review of claims files. Also included is an estimate for unreported claims.

3. PRIOR PERIOD ADJUSTMENT

During the year, the Corporation entered into a cost sharing agreement with the Motor Vehicle Branch whereby, for services rendered, it will receive \$2 million per annum for the five year period ending December 31, 1982. The unappropriated surplus at December 31, 1979 previously reported as \$6,830,000 has been restated to reflect a retroactive credit of \$4,000,000 representing the contribution received for 1978 and 1979. Of the \$4,000,000, \$2,000,000 is applicable to 1979 and has been credited to income in that year as a reduction in administration costs and the remaining \$2,000,000, applicable to 1978, has been credited to unappropriated surplus at December 31, 1978 previously stated as \$3,023,000.

4. RESERVES

Insurance (Motor Vehicle) Act Fund

The purpose of the Rate Stabilization Reserve was to lessen the potential impact of significant variation in claims loss experience and the equalization of rates under the FAIR Program.

Such events occurred this year with the result that the entire Reserve has been applied against the financial loss for the year.

General Operations

The Corporation has appropriated from General Operations retained earnings an additional \$1,200,000 to the Rate Stabilization Reserve. The appropriation increases this reserve to \$5,100,000. A \$1,100,000 appropriation has been made to the Catastrophe Reserve increasing this Reserve to \$4,300,000.

As is the practice in the industry, a Catastrophe Reserve has been established to reflect the

impact of possible losses arising from catastrophic occurrences. Catastrophes such as earthquakes, storms, or conflagrations occur at random and the losses arising could be substantial.

The Rate Stabilization Reserve has been established to lessen the potential impact on General Insurance premiums of significant variations in claims loss experience in future years.

Amounts will be withdrawn from this Reserve in loss years and conversely, amounts will be added to the Reserve in years with a surplus.

5. INVESTMENTS

		<i>Dec. 31, 1980</i>	<i>Dec. 31, 1979</i>
Short-term Deposit Receipts, Call Loans and Notes (approximates market value)		\$356,942,000	\$326,369,000
Bonds (est. market value)			
—Dec. 31, 1980	\$178,737,000		
—Dec. 31, 1979	\$166,280,000	227,885,000	198,956,000
		<u>\$584,827,000</u>	<u>\$525,325,000</u>

6. PROPERTY AND EQUIPMENT

	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>Net Book Value at December 31, 1980</i>	<i>Net Book Value at December 31, 1979</i>
Land	\$10,048,000	\$ —	\$10,048,000	\$10,181,000
Buildings	31,791,000	7,488,000	24,303,000	21,552,000
Furniture & Equipment	6,920,000	3,225,000	3,695,000	2,913,000
Computer Under Capital Lease	2,837,000	—	2,837,000	1,549,000
Leasehold Improvements	2,292,000	1,554,000	738,000	1,114,000
	<u>\$53,888,000</u>	<u>\$12,267,000</u>	<u>\$41,621,000</u>	<u>\$37,309,000</u>

Depreciation has been charged at the following rates—Buildings 5-10%; Furniture and equipment 10-40%; Computer under capital lease 40%. Leasehold improvements are amortized over the term of the lease plus one renewal period. Depreciation expense for the year ended December 31, 1980 amounted to \$3,493,000 (1979 \$3,212,000).

7. OBLIGATION UNDER CAPITAL LEASE

The following is a schedule of future minimum lease payments under capital lease.

Year Ended December 31

1981	\$1,268,000
1982	1,449,000
1983	544,000
Total minimum lease payments	3,261,000
Less: Amounts representing insurance and maintenance	(538,000)
Amounts representing interest	(594,000)
Present value of the minimum lease payments	<u>\$2,129,000</u>

Interest expensed in the year ended December 31, 1980 amounted to \$208,000 (1979 \$300,000).

8. UNEARNED PREMIUMS

	<i>Dec. 31, 1980</i>	<i>Dec. 31, 1979</i>
Insurance (Motor Vehicle) Act Fund	\$134,930,000	\$ 97,727,000
General Insurance	11,311,000	10,162,000
Total Unearned Premiums	<u>\$146,241,000</u>	<u>\$107,889,000</u>

9. UNPAID CLAIMS

	<i>Dec. 31, 1980</i>	<i>Dec. 31, 1979</i>
Insurance (Motor Vehicle) Act Fund	\$450,235,000	\$366,318,000
General Insurance	13,436,000	10,805,000
Total Unpaid Claims	<u>\$463,671,000</u>	<u>\$377,123,000</u>

10. CASH FLOW FROM (TO) OPERATIONS

	<i>Twelve Months Ended</i>	
	<i>Dec. 31, 1980</i>	<i>Dec. 31, 1979</i>
Insurance (Motor Vehicle) Act Fund		
Income (loss) for the year	\$(66,038,000)	\$ 5,807,000
Non-cash item		
Depreciation and amortization	3,456,000	3,133,000
Cash flow from (to) operations	<u>\$(62,582,000)</u>	<u>\$ 8,940,000</u>
General Operations		
Income for the year	\$ 1,865,000	\$ 1,538,000
Non-cash item		
Depreciation and amortization	37,000	79,000
Cash flow from operations	<u>\$ 1,902,000</u>	<u>\$ 1,617,000</u>

11. COMMITMENTS

The Corporation is committed to make the following payments during the next five years on property and equipment leased for periods of more than one year:

Fiscal year:	
1981	\$5,480,000
1982	3,638,000
1983	540,000
1984	144,000
1985	77,000

12. CAPITAL COMMITMENTS

The Corporation has commenced construction of a new head office building due for completion in 1982. The total cost of the land and building will be approximately \$35 million, of

which \$22 million will be spent in 1981.

13. PENSION PLAN

Certain employees participate in a contributory pension plan and are entitled to vested interests prior to retirement.

Employees contribute specified percentage of salaries. The Corporation contributes to the Plan all amounts as actuarially determined, over and above employee contributions, to fund the benefits earned by employees under the Plan.

As of December 31, 1980 the Corporation has fully provided for all past service liabilities of the Pension Plan. Contributions by the Corporation for the year ended December 31, 1980 were \$1,970,000 (1979 \$1,557,000).

Auditors' Report

The Honourable James Hewitt
Minister of Agriculture and Food
Province of British Columbia

We have examined the balance sheet of the Insurance Corporation of British Columbia as at December 31, 1980, the statements of general operations and changes in financial position and the statement of operations of the Insurance (Motor Vehicle) Act Fund for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the

Corporation as at December 31, 1980, and the results of its operations and the changes in its financial position and the results of the operations of the Fund for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

G. P. S. & Co. Chartered Accountants

CHARTERED ACCOUNTANTS
Vancouver, British Columbia
February 10, 1981

BOARD OF DIRECTORS

John C. Gilmer (+)
*Chairman of the Board
 Company Director and formerly
 President and Chief Executive
 Officer, CP Air*

Thomas E. Holmes
President and Chief Executive Officer

The Honourable James J. Hewitt (+)
*Minister of Agriculture and Food
 Province of British Columbia*

The Honourable K. Rafe Mair (Resigned January, 1981)
*Minister of Health
 Province of British Columbia*

Walter H. Dyck (*) (‡)
*Partner
 Campbell Sharp
 Vancouver, B.C.*

Lawrence B. Eberhardt (*)
*Vancouver, B.C.
 Formerly Chairman, President and
 Chief Executive Officer
 Neon Products Canada Ltd.*

Norman H. Manning (*) (‡)
*Victoria, B.C.
 Formerly Chief Executive
 Guardian Royal Exchange Group
 Insurance Companies*

Sandra Sutherland (+) (‡) (Resigned January, 1981)
*Partner
 Freeman & Co.
 Vancouver, B.C.*

Donald N. Watson
*Chairman, President and
 Chief Executive Officer
 Canadian Cellulose Company Limited
 Vancouver, B.C.*

MAJOR COMMITTEES OF THE BOARD

(*) *Audit Committee*
 (+) *Investment Committee*
 (‡) *Budget Committee*

PRESIDENT'S COMMITTEE

T. E. Holmes
President and Chief Executive Officer

J. W. Bardua
Corporate Secretary

R. D. Blackburn
Senior Vice-President, General Insurance

R. E. Henderson
Senior Vice-President, Administration

J. B. Hutchinson (Retired December, 1980)
Senior Vice-President, Operations Staff

B. F. Pearson
Vice-President, Claims

C. B. Penhall
Manager, Public Information

R. H. Power
Vice-President, Finance and Planning

CLAIM SERVICE LOCATIONS

Lower Mainland

Burnaby
 Chilliwack
 Coquitlam
 East Vancouver
 Kingsway
 Langley
 Matsqui
 North Vancouver
 Richmond
 South West Marine
 Squamish
 Surrey
 West Broadway

Vancouver Island

Campbell River
 Courtenay
 Duncan
 Nanaimo
 Port Alberni
 Port Hardy
 Victoria

Other areas of B.C.

Cranbrook
 Dawson Creek
 Fort St. John
 Kamloops
 Kelowna
 Nelson
 100 Mile House
 Penticton
 Powell River
 Prince George
 Prince Rupert
 Quesnel
 Revelstoke

Salmon Arm
 Smithers
 Terrace
 Trail
 Vernon
 Williams Lake

ADMINISTRATIVE OFFICE:

1055 West Georgia Street, Vancouver, B.C. V6E 3R4

AUDITORS:

Coopers & Lybrand, Chartered Accountants, Vancouver

BANKER:

The Royal Bank of Canada, Vancouver, B.C.

